

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS

Wamego, Kansas

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

December 31, 2019 and 2018

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas



February 27, 2020

Board of Directors
Rural Water District No. 1, Pottawatomie County, Kansas
Wamego, Kansas

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1, Pottawatomie County (the District) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

February 27, 2020
Rural Water District No. 1, Pottawatomie County, Kansas
(Continued)

Other-Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Vanney & Associates, CPAs

Certified Public Accountants
Manhattan, Kansas

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS

Wamego, Kansas

STATEMENTS OF NET POSITION

December 31,

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash	\$ 1,178,423	\$ 2,534,200
Certificates of deposits	4,092,771	4,041,980
Accounts receivable	111,516	70,354
Inventory	39,501	46,656
Total Current Assets	<u>\$ 5,422,211</u>	<u>\$ 6,693,190</u>
Capital assets	\$ 12,830,052	\$ 10,465,658
Less: Accumulated depreciation	(3,941,164)	(3,673,484)
Capital Assets - Net	<u>\$ 8,888,888</u>	<u>\$ 6,792,174</u>
TOTAL ASSETS	<u><u>\$ 14,311,099</u></u>	<u><u>\$ 13,485,364</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 33,150	\$ 25,272
Customer overpayments	13,411	21,006
Fees collected on behalf of City of Manhattan	14,175	15,593
Other accrued expenses	8,553	5,782
Total Current Liabilities	<u>\$ 69,289</u>	<u>\$ 67,653</u>
Net Position		
Net Investment in capital assets	\$ 8,888,888	\$ 6,792,174
Unrestricted	5,352,922	6,625,537
TOTAL NET POSITION	<u>\$ 14,241,810</u>	<u>\$ 13,417,711</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 14,311,099</u></u>	<u><u>\$ 13,485,364</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS
Wamego, Kansas
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Water sales	\$ 1,581,561	\$ 1,629,927
Customer extra hook-up charge	127,989	75,651
Late charges	18,695	22,249
Other charges	43,124	52,675
Total Operating Revenues	<u>\$ 1,771,369</u>	<u>\$ 1,780,502</u>
OPERATING EXPENSES		
Salaries	\$ 192,371	\$ 181,763
Depreciation and amortization	267,680	227,304
City of Manhattan water charges	385,355	314,493
Advertising	24	488
Repair and maintenance	44,896	51,651
Utilities	83,721	80,706
Equipment and supplies	98,276	150,637
Insurance	31,289	29,679
Office supplies	27,698	23,603
Payroll expense	38,731	37,892
Employee benefits	5,451	5,342
Vehicle expense	9,062	11,040
Miscellaneous	3,404	3,948
Water protection fee	8,987	15,110
Chemicals and supplies	5,172	8,063
Director's compensation	4,736	4,575
Maintenance - Wells	48,965	54,771
Customer reimbursement	1,100	2,353
Engineering fees	13,527	6,748
Travel and education	781	1,531
Dues and subscriptions	1,560	1,220
Water sample testing fees	2,444	1,982
Legal and accounting	7,637	6,010
New installs	56,437	72,802
Total Operating Expenses	<u>\$ 1,339,304</u>	<u>\$ 1,293,711</u>
OPERATING INCOME	<u>\$ 432,065</u>	<u>\$ 486,791</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest income	79,334	47,714
NET INCOME BEFORE CONTRIBUTIONS	<u>\$ 511,399</u>	<u>\$ 534,505</u>
CONTRIBUTIONS		
Capital contributions from members	312,700	318,600
CHANGE IN NET POSITION	<u>\$ 824,099</u>	<u>\$ 853,105</u>
BEGINNING NET POSITION	<u>\$ 13,417,711</u>	<u>\$ 12,564,606</u>
ENDING NET POSITION	<u><u>\$ 14,241,810</u></u>	<u><u>\$ 13,417,711</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS

Wamego, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,728,789	\$ 1,769,816
Cash paid to suppliers	(871,815)	(892,880)
Cash paid to employees	(189,600)	(175,981)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 667,374</u>	<u>\$ 700,955</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	\$ 79,334	\$ 47,714
Change in certificates of deposit	(50,791)	(40,975)
Net Cash Provided by (Used in) Investing Activities	<u>\$ 28,543</u>	<u>\$ 6,739</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	\$ (872,297)	\$ (34,235)
Purchase of construction in progress	(1,492,097)	(96,756)
New benefit units	312,700	318,600
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>\$ (2,051,694)</u>	<u>\$ 187,609</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (1,355,777)</u>	<u>\$ 895,303</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,534,200</u>	<u>1,638,897</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,178,423</u></u>	<u><u>\$ 2,534,200</u></u>
Reconciliation of operating net income (loss) to net cash provided by (used in) operating activities		
Operating net income	\$ 432,065	\$ 486,791
Adjustments to reconcile operating net income (loss) to net cash provided by (used in) operating activities		
Depreciation	267,680	227,304
Decrease (increase) in accounts receivable	(41,162)	(10,424)
Decrease (increase) in inventory	7,155	17,481
Increase (decrease) in accounts payable	283	(25,717)
Increase (decrease) in fees collected on behalf of City of Manhattan	(1,418)	(262)
Increase (decrease) in other accrued expenses	2,771	5,782
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 667,374</u></u>	<u><u>\$ 700,955</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS
Wamego, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Rural Water District No. 1, Pottawatomie County, Kansas (the District) was organized under K.S.A. 82a-612 et. seq. to provide water to areas of Pottawatomie County adjacent to Wamego, Kansas. The operations of the District constitute a single proprietary-type fund.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organization, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary government) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the organization's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the organization. Using these criteria, the District has no component units.

Basis of Presentation and Accounting

The District's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted for debt services; and unrestricted components.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market and checking accounts and certificates of deposits with an original maturity of three months or less.

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS

Wamego, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts due from customers for water use. All receivables are current and; therefore, due within one year. Management has evaluated all receivables and determined that the allowance for uncollected receivables should be \$0 as of December 31, 2019 and 2018.

Inventory

Inventory consists principally of materials and supplies for maintenance and construction of water lines that are recorded when purchased and expensed when used. Inventory is recorded at cost, on the first-in first-out basis.

Capital Assets

Capital assets are recorded at cost including cost of capitalized interest; plant and building are depreciated over 20 - 40 years, office buildings over 30 years, office equipment is depreciated over 3 to 10 years and vehicles over 5 years using the straight-line method.

Income Taxes

Pottawatomie County Rural District No. 1, Pottawatomie County, Kansas is a quasi-municipality and, as such, it is not subject to income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Capital Contributions

Assets contributed by new benefit units are recorded as capital contributions when received. When a benefit unit is returned, operating revenue is recognized for the amount of the capital contribution that was originally recorded.

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS

Wamego, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 2: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2019 and 2018.

December 31, 2019

At December 31, 2019, the carrying amount of the District's deposits, including certificates of deposit, was \$5,270,944 and the bank balance was \$5,273,916. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$3,792,141 was covered by federal depository insurance. The remaining \$1,481,776 was collateralized by pledged securities or LOC agreements held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

December 31, 2018

At December 31, 2018, the carrying amount of the District's deposits, including certificates of deposit, was \$6,576,180 and the bank balance was \$6,619,399. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$3,749,296 was covered by federal depository insurance. The remaining \$2,870,103 was collateralized by pledged securities or LOC agreements held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS
Wamego, Kansas
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Capital Assets Not Being Depreciated				
Land	\$ 241,635	\$ -	\$ -	\$ 241,635
Construction in process	183,068	1,492,097	-	1,675,165
Total Capital Assets Not Being Depreciated	\$ 424,703	\$ 1,492,097	\$ -	\$ 1,916,800
Other Capital Assets				
Plant and building	\$ 9,793,811	\$ 237,741	\$ -	\$ 10,031,552
Office building	55,887	-	-	55,887
Equipment	148,735	634,556	-	783,291
Vehicles	40,212	-	-	40,212
Furniture and fixtures	2,310	-	-	2,310
Total Other Capital Assets	\$ 10,040,955	\$ 872,297	\$ -	\$ 10,913,252
Less: Accumulated Depreciation				
Plant and building	\$ 3,445,176	\$ 221,924	\$ -	\$ 3,667,100
Office building	51,702	627	-	52,329
Equipment	139,445	39,767	-	179,212
Vehicles	34,851	5,362	-	40,213
Furniture and fixtures	2,310	-	-	2,310
Total Less: Accumulated Depreciation	\$ 3,673,484	\$ 267,680	\$ -	\$ 3,941,164
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION				
	\$ 6,367,471	\$ 604,617	\$ -	\$ 6,972,088
Capital assets not being depreciated	\$ 424,703	\$ 1,492,097	\$ -	\$ 1,916,800
Other Capital assets at cost	10,040,955	872,297	-	10,913,252
Total Cost of Capital Assets	\$ 10,465,658	\$ 2,364,394	\$ -	\$ 12,830,052
Less: Accumulated depreciation	(3,673,484)	(267,680)	-	(3,941,164)
CAPITAL ASSETS - NET	\$ 6,792,174	\$ 2,096,714	\$ -	\$ 8,888,888

Notes to Financial Statements

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS
Wamego, Kansas

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Capital Assets Not Being Depreciated				
Land	\$ 241,635	\$ -	\$ -	\$ 241,635
Construction in process	86,311	96,757	-	183,068
Total Capital Assets Not Being Depreciated	\$ 327,946	\$ 96,757	\$ -	\$ 424,703
Other Capital Assets				
Plant and building	\$ 9,766,488	\$ 27,323	\$ -	\$ 9,793,811
Office building	52,725	3,162	-	55,887
Equipment	144,986	3,749	-	148,735
Vehicles	40,212	-	-	40,212
Furniture and fixtures	2,310	-	-	2,310
Total Other Capital Assets	\$ 10,006,721	\$ 34,234	\$ -	\$ 10,040,955
Less: Accumulated Depreciation				
Plant and building	\$ 3,231,149	\$ 214,027	\$ -	\$ 3,445,176
Office building	51,338	364	-	51,702
Equipment	134,574	4,871	-	139,445
Vehicles	26,809	8,042	-	34,851
Furniture and fixtures	2,310	-	-	2,310
Total Less: Accumulated Depreciation	\$ 3,446,180	\$ 227,304	\$ -	\$ 3,673,484
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION				
	\$ 6,560,541	\$ (193,070)	\$ -	\$ 6,367,471
Capital assets not being depreciated	\$ 327,946	\$ 96,757	\$ -	\$ 424,703
Other Capital assets at cost	10,006,721	34,234	-	10,040,955
Total Cost of Capital Assets	\$ 10,334,667	\$ 130,991	\$ -	\$ 10,465,658
Less: Accumulated depreciation	(3,446,180)	(227,304)	-	(3,673,484)
CAPITAL ASSETS - NET	\$ 6,888,487	\$ (96,313)	\$ -	\$ 6,792,174

Notes to Financial Statements

RURAL WATER DISTRICT NO. 1, POTTAWATOMIE COUNTY, KANSAS

Wamego, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 4: Risk Management

The District is exposed to various risks of loss related to theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages these various risks of loss through commercial insurance with varying deductibles. All deductibles are under \$1,000. Insurance claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 5: Fees Collected on Behalf of City of Manhattan

The District has contracted with the City of Manhattan to complete an Interlocal Public Works Water Agreement. This agreement pertains to benefit units that will be within the District but have water provided by the City. These new benefit units must pay an installation fee which is collected by the District on behalf of the City. During 2019 and 2018, they had outstanding payments of \$14,175 and \$15,593 respectively at year end.

Note 6: Subsequent Events

Management has evaluated subsequent events through February 27, 2020, which is the date the financial statements were available for issuance.